KEEGAN WERLIN LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

September 18, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: Southern Union Company, D.T.E. 06-71

Dear Ms. Cottrell:

Enclosed herewith are the responses of Southern Union Company (the "Company") to the Second Set of Information Requests of the Department of Telecommunications and Energy (the "Department") in the above-referenced proceeding. Please note the Company's responses to DTE-2-8 and DTE-2-9 will be filed as soon as possible later today.

Thank you for your attention to this matter. Please do not hesitate to contact me if I can provide you with any additional information concerning this matter.

Sincerely,

Cheryl Kimball

Cheryl M. Kimball

Enclosures

cc: Caroline M. Bulger, Hearing Officer
Paul Osborne, Rates and Revenue Requirements Division
Glenn Shippee, Rates & Revenue Requirements Division

Information Request DTE-2-1

Refer to Exh. SU-1, at 18. Please explain the public solicitation and bidding process, including estimated timelines and costs, that would be required in the absence of an exemption from the requirements of G.L. c. 164, § 15.

Response

The Company believes that the "public solicitation and bidding process" anticipated in G.L. c. 164, § 15 refers to a process whereby a company issuing debt would conduct a "public" competitive solicitation requesting bids from competing underwriters who would purchase the debt. The successful bidders purchase the notes at the bid price and then remarket the notes to investors in the marketplace. In this process, the underwriter effectively assumes the risk of obtaining the value paid to the company from the market.

The Company believes this process is less efficient than the one it has used historically. Utilizing underwriters to market debt securities directly to interested investors has certain advantages in comparison to the "public solicitation and bidding process." First, the competitive aspect anticipated in the "public solicitation" process is maintained because the Company involves multiple underwriters in the process, who compete aggressively among themselves to handle as much of the issuance as possible. The Company currently anticipates using as many as four underwriters in the issuance process.

At the same time, the "public solicitation" process is improved upon because the Company is allowed to capture the full benefit available in the marketplace from investors, rather than selling the debt to underwriters who then have an opportunity to capture a benefit from the market in the event that investors are willing to pay more for the debt that offered to the company by the underwriter through the "public solicitation process." Also, the Company benefits from the comprehensive marketing efforts of the underwriters who utilize road shows and other similar forums to preview the debt issuance to potential investors.

Because the Company has never utilized a "public solicitation process" and it is not a practice generally undertaken in the market, the Company has no specific knowledge as to the time frames or costs involved with such a process.

Information Request DTE-2-2

Refer to Exh. SU-1, at 18. Please explain the “market conditions and opportunities” referred to by the Company that it contends may be lost through a public solicitation and bidding process.

Response

A key factor in obtaining the best possible price on the market is the level of demand that is generated for the Company’s securities in the marketplace. The Company’s ability to generate a high level of demand is a function of its ability to offer the issue to the largest group of market participants under favorable conditions. For example, it would be beneficial for the Company to make its offering when there are relatively few long-term investment alternatives being offered to investors or when interest rates are relatively low. In addition, long-term financial markets rely on expectations about future economic conditions and, as a result, it will be important to time the issuance to coincide with long-term economic prospects that engender interest in the purchase of long-term securities, such as the ones being offered by the Company. Lastly, given the timeframe of the Department’s approval, consideration will have to be given to the impact of the holiday season on market activities. Therefore, because the Company’s ability to obtain the best possible price in the marketplace for its issuance is directly linked to its ability to go to market with the issuance at a favorable time, an exemption from the advertising requirements in G.L. c. 164, § 15 is in the public interest.

As discussed in the response to Information Request 2-1, the Company plans to sell its securities in the public market with the assistance of a group of underwriters through negotiation directly with investors. The investment bankers that the Company engages will be responsible for helping the Company to develop preliminary informational packages, creating a formal presentation regarding the offering, and for conducting video and telephone conferences or personal presentations to groups of institutional investors in order to generate interest for the Company’s offering. The underwriters also have retail marketing capabilities, which could create additional demand for the securities and favorable results with respect to credit spreads. This direct marketing process provides the Company with the flexibility and readiness to respond quickly to market changes.

Information Request DTE-2-3

Refer to Exh. SU-1, at 7. Please explain the process by which the Company contemplates the proposed notes would be sold through agents, including estimated timelines and costs.

Response

Please see response the response to Information Request DTE 2-4.

Information Request DTE-2-4

Refer to Exh. SU-1, at 7. Please explain the process by which the Company contemplates the proposed notes would be sold through negotiations with underwriters, including estimated timelines and costs.

Response

The anticipated timeline and detail of responsibilities relative to the sale of notes is attached hereto. As you will see, Credit Suisse, Goldman Sachs, Merrill Lynch and Lehman Brothers will act as underwriters for the transaction. Commissions paid to the underwriters will approximate 2% of the principal amount of notes sold. Therefore, commissions will total approximately $12 million if the Company issues the $600 million maximum amount of notes requested. All underwriters' legal fees and out of pocket expenses will be paid by the underwriters. The Company will be responsible for its legal fees, auditor fees and out-of-pocket expenses, including the $90,600 filing fee paid to the Department in connection with this request, which are estimated to aggregate approximately $350,000-$400,000.

CONFIDENTIAL

Attachment DTE-2-4

Preliminary Timetable & Responsibilities

August 2006

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14			17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

September 2006

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						2
3	4	5	6	7	8	9
10	11	12	13	14		16
17	18			21	22	23
24	25	26	27	28	29	30

October 2006

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16			19	20	21
22	23	24		26	27	28
29	30	31				

Legend

- Employment Report
- Producer Price Index
- Consumer Price Index
- FOMC Meeting
- UST Auction
- Holiday

DATE	ACTIVITY	RESPONSIBILITY
Week of August 28th	▶ Appoint Lawyers	SUG, CS
	▶ August 30th - Organizational conference call	SUG, CS, GS, LEH, ML, CC, UC
Weeks of September 4th – 11th	▶ Commence drafting Offering Circular ("OC")	SUG, CS, CC, UC
	▶ Begin drafting tax opinion	SUG, CC, UC
	▶ Distribute first draft of OC	SUG, CC, UC
	▶ Commence discussions with Moody's, S&P and Fitch	SUG, CS
	▶ Provide comments on OC	SUG, CS, CC, UC
	▶ Commence discussions with auditors	SUG, CS, CC, UC, A
	▶ Distribute second draft of OC	SUG, CC, UC
Weeks of September 11th – 18th	▶ Provide comments on OC	SUG, CS, CC, UC
	▶ Submit OC to NAIC for pre-classification (TBD)	CS, Insurer
	▶ Commence drafting Purchase Agreement and other transaction documents	SUG, CS, CC, UC
	▶ Distribute draft of Purchase Agreement	UC
	▶ Purchase Agreement and other key documents finalized	SUG, CS, CC, UC, A
	▶ Commence legal due diligence	SUG, CC, UC
	▶ Distribute draft comfort letter	A
Weeks of September 25th – October 2nd	▶ Finalize rating agency sign off	SUG, CS
	▶ OC circulated to underwriting group	ALL
Week of October 9th	▶ Receive all required regulatory approvals	SUG
	▶ Underwriters' due diligence call	ALL
Week of October 16th	▶ Commence marketing / launch and pricing	SUG, CS, GS, LEH, ML
	▶ Signing / Closing and Settlement	ALL

SUG: Southern Union ; CS: Credit Suisse (Structuring Advisor); GS: Goldman Sachs; LEH: Lehman Brothers; ML: Merrill Lynch; CC: Company Counsel (Fleischman & Walsh); UC: Underwriter's Counsel (Sullivan & Cromwell); A: Auditors

Note: To receive pre-classification from the NAIC, 3 to 6 weeks may need to be added to the overall timing of the transaction

CREDIT SUISSE

Information Request DTE-2-5

Refer to Exh. SU-1, at 7. Please explain the process by which the Company contemplates the proposed notes would be sold through direct negotiations with investors, including estimated timelines and costs.

Response

Please see the response to Information Request DTE 2-4.

Information Request DTE-2-6

Refer to Exh. SU-1, at 7. Please explain the process by which the Company contemplates the proposed notes would be sold to agents as principal for resale to investors, including estimated timelines and costs.

Response

Please see the response to Information Request DTE 2-4.

Information Request DTE-2-7

Refer to Exh. SU-1 at 18. Please explain why "market conditions" may make it difficult for the Company to price its proposed notes at par value while at the same time offer an acceptable coupon rate to investors.

Response

In the Company's experience, the issue with the term "par value" under the statute is that investors are looking for a "clean" coupon rate. Specifically, securities are generally marketed at a rate that is tied to treasury rates with a designated credit spread. For example, if treasury rates are 5.14% and the securities are issued with a spread of 100 basis points, the coupon rate would be 6.14%. However, investors generally prefer coupon rates in even increments (i.e., 6¼, 6½). Therefore, to establish an even increment for investors, the coupon rate may have to be discounted slightly to provide the same yield. For example, an interest rate of 6.14% would convert to a coupon rate of 6 1/8.